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TAGS: [ECON](#) [EPET](#) [EMIN](#) [SENV](#) [ETRD](#) [EFIN](#) [USTR](#) [EC](#)
SUBJECT: Ecuador's Minister of Non-Renewable Natural Resources
Reveals Little on GoE Oil and Mining Policies

REF: 09 QUITO 1080; QUITO 05

CLASSIFIED BY: Heather Hodges, Ambassador, State, Exec; REASON:
1.4(B), (D)

¶1. (C) Summary. During a February 2 courtesy call with Ambassador, Minister for Non-Renewable Natural Resources Germanico Pinto reiterated the GoE's intention to focus on partnerships with foreign state-owned companies for exploration and development within the mining and petroleum sectors, but insisted that good opportunities existed for U.S. companies in the sale of services and equipment. Pinto also confirmed the Navy should complete its hand-over of management of Petroecuador by the end of March 2010. Pinto said that as part of the Ministry's judicial process to review/terminate the government's contract with Noble Energy's natural gas subsidiary EDC, the company must submit documentation supporting its position. He claimed the Ministry typically was disposed to finding a resolution to such disputes rather than seeking a legal outcome. In an exchange on the Yasuni-ITT conservation initiative, Pinto expressed optimism about eventual success, despite the GoE's failure to gain its acceptance during the Copenhagen Climate Summit and subsequent resignation of the GoE's negotiating team (ref A). However, he was unable to identify changes that would make the GoE's proposal more attractive from a donor's perspective. End Summary.

¶2. (SBU) The Ambassador discussed a wide range of issues with Minister for Non-Renewable Natural Resources Germanico Pinto on February 2. Pinto, who has a background in electrical engineering and software design, was named Minister of Mining and Petroleum in June 2009; the Ministry changed names several months later. Pinto, a member of the ruling political party Alianza Pais, previously served in the Constitutional Assembly and as deputy in the Coordinating Ministry for Strategic Sectors.

Petroleum Sector

¶3. (SBU) First turning to the petroleum sector, Pinto claimed the Navy's turnover of management of state oil company Petroecuador was proceeding in an organized manner and that the Navy would relinquish control of the company by the end of March. (The Navy has been running Petroecuador since November 2007). Pinto said the framework for reorganization of Petroecuador was based on the Public Company Law and on a study performed by the Wood Mackenzie consulting firm. As a part of the reorganization, Petroecuador's subsidiaries (Petroproduccion, Petroindustrial, and Petrocomercial), which currently operate more or less independently, will be converted into separate divisions within Petroecuador. The entire reorganization is not expected to be

completed until the end of 2010.

¶4. (SBU) On foreign investment in the petroleum sector, Pinto reiterated the GoE's intention to pursue exploration and development within the sector primarily through "strategic alliances" of Petroecuador with other foreign state oil and gas companies. Pinto added, however, that numerous opportunities exist for private U.S. companies in the supply of services and equipment as the GoE ramps up investment in this sector; he mentioned the Refinery of the Pacific as a specific example, despite the construction contract being awarded to a South Korean firm. Pinto noted that Ecuadorian legislation allows for "fast-track" government procurement for strategic projects, including exploration and development activities within the petroleum sector. Pinto emphasized that bids for services or equipment that included financing would be viewed most favorably, and would enable the purchase process to proceed most quickly. Pinto mentioned that a U.S. firm had won a contract to supply gas storage equipment to the Ecuadorian Petroleum Fleet (FLOPEC). (Post does not have details about this sale.)

Mining

¶5. (SBU) Pinto briefly reviewed the state of play in the mining sector, noting that existing, large mining concessions were still in the exploratory phase. Pinto explained that a framework for further development of the sector had been established with Ecuador's new mining law and implementing regulations, as well as regulations covering environmental issues and small mining. He mentioned the recent creation of the state mining company, Enami, and said one of its major roles would be to manage strategic

alliances with other foreign state mining companies. Pinto suggested that even though there were no U.S. investors currently active in the mining sector, export opportunities would exist once concession holders moved into a development/extraction phase.

Noble/EDC Dispute with GoE

¶6. (C) The Ambassador stated that Noble Energy's subsidiary EDC's investment dispute with the GoE should be dealt with in a fair and impartial manner. Pinto said the matter was being considered within the Ministry. He declined to offer any details, but claimed his ministry was disposed in general to resolving disputes with private companies rather than seeking legal solutions. [Background: On January 22, the Ministry officially accepted a recommendation from Petroecuador to initiate a process to terminate EDC's gas concession off the coast in Block 3, claiming EDC had not complied with investment commitments within its contract. Within 60 days from that date, EDC must provide information to the Ministry and Minister Pinto is supposed to render a final decision. (Note: as part of its written contract, Noble/EDC may not seek diplomatic mediation regarding the dispute. For more details on the dispute see ref A. End Note.)]

Yasuni-ITT

¶7. (C) Pinto expressed optimism about the eventual success of the GoE's Yasuni-ITT conservation initiative, despite the GoE's failure to gain international support for the proposal during the recent Copenhagen Climate Summit, and the subsequent resignation of the GoE's negotiating team, including the Foreign Minister, over criticism by President Correa over "conditions" they were willing to accept from international donors (ref B). Pinto was unable to explain to the Ambassador in what way the GoE was planning to modify its proposal to generate greater interest by potential international donors. The Ambassador pointed out that financial support was rarely given without conditions that ensured the funds would be used as intended. Pinto noted the initiative was a 10-year proposal and claimed the fund for the initiative would be structured so that donors would be able to retrieve their contributions should a future Ecuadorian government decide to develop the oil tract. He also suggested that there were private groups within the United States that might want to participate, even if the USG did not. [Note: President Correa named former Ambassador to the United States, Ivonne Baki, on February 2 as the head of a new negotiating team.]

Comment

18. (C) Pinto was cordial and took pains to emphasize ways in which U.S. companies could participate in both the mining and petroleum sectors. However, the message was clear and consistent with President Correa's agenda, that the GoE exert maximum control over these two sectors and pursue development primarily, if not exclusively, through strategic partnerships with state companies of "friendly" countries, i.e., not through foreign private investment. On the Yasuni-ITT initiative, it is difficult to understand the basis for Pinto's confidence. Nonetheless, the GoE seems intent to plow ahead in high profile fashion as it starts anew to pitch its proposal to potential international donors. The first stop on the new team's international roadshow is Iran, and then other Middle Eastern countries (septel).
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